STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 6107

Tariff filing of Green Mountain Power Corporation)
requesting a 12.9% rate increase, to take effect)
June 22, 1998)

PREFILED SURREBUTTAL TESTIMONY OF
RAYMOND E. KOLIANDER
ON BEHALF OF THE
VERMONT DEPARTMENT OF PUBLIC SERVICE

November 13, 2000

Summary: Mr. Koliander's testimony discusses the following issues concerning the proposed settlement: (1) treatment of any excess earnings caused by the rate increase and in light of the two year stay out; (2) the write-off of certain deferred debits; (3) the elimination of carrying costs on other deferred debits; (4) the amortization period for certain regulatory assets; (5) the elimination of the Winter/Summer rate design; and (6) the effects of the elimination of Winter/summer rates.

Prefiled Testimony
of
Raymond E. Koliander

Q. Did you testify previously in this docket?

A. Yes, I did. My testimony was prefiled in September 1998. I testified before the Public Service Board on October 26, 1998.

Q. What is the purpose of your testimony?

A. My testimony discusses the following issues concerning the proposed settlement: (1) treatment of any excess earnings caused by the rate increase and in light of the two year stay out; (2) the write-off of certain deferred debits; (3) the elimination of carrying costs on other deferred debits; (4) the amortization period for certain regulatory assets; (5) the elimination of the Winter/Summer rate design; and (6) the effects of the elimination of Winter/summer rates.

Q. Would you please explain the Department's position on the proposed rate increase?

A. Yes, as Mr Dirmeier's testimony indicates, for the 2001 calender year GMP will require an additional $7.2 million dollars of revenue in order to achieve the 11.25% allowed rate of return on equity. The proposed settlement addresses possible concerns regarding excess earnings by providing that in order to insure the maximum benefit to ratepayers, excess earnings would be used to write down regulatory assets. Under this method ratepayers would receive the benefit from any excess earnings during the stay-out period.

Q. Would you please explain the write off or write down of certain regulatory assets or deferred debits that was agreed to in the settlement?

A. Yes. As of September 30, 2000, the Deferred State Regulatory Expenses account has a balance of approximately $3.2 million. The proposed settlement contains an agreement that the company will write-off the total balance in that account from its inception through Sept 30, 2000. Due to circumstances facing GMP regarding certain accounting requirements, the Department believes this amount is the largest that can be written off and still allow GMP to be a financial viable company. Exhibit DPS-SReb-REK-1 shows the write-off as a result of the proposed settlement and the contingency write-off related to GMP power portfolio and non-regulated business.

Q. Would you please explain Exhibit DPS-SReb-REK-1?

A. Yes, the Department believes that to enable a final resolution of the GMP financial crisis to work, GMP needs to be able to access the capital markets. To ensure that access, we determined, through Mr. Ross, that continuation of a dividend payment would be a positive factor in discussions with potential lenders. GMP's by-laws, however, prohibit a dividend payment if there are not enough retained earnings available to make the payment. Using GMP's most current projections, Exhibit DPS-SReb-REK-1 shows that for the fourth quarter 2000 GMP will be in a position to continue the common dividend payment. Additional write-offs anticipated by the company as a result of accounting rules also reduce the retained earnings. While some of these write-offs may be a timing problem, the fact that the accounting rules require those write-offs does reduce the retained earnings available for dividends. It is worth noting that these write-offs are after tax which means that the book balances are reduced by about 40% to arrive at the reduction to retained earnings.

Q. Would you please explain the Department's position regarding other deferred debits and the associated carrying costs?

A. Yes, given the lean state of GMP's retained earnings, and to balance settlement provisions that were included to keep common dividends flowing, the proposed settlement contains certain requirements that benefit ratepayers. One is the elimination of carrying costs on certain regulatory assets and deferred debits. Under this provision the rate payers pay the return of the expenses but don't pay a return on the expense. Depending on the estimated lives of the deferral, this provision results in a sharing of the costs. Under the proposed settlement, ice storm arbitration expenses as well as Schedule A B C Hydro Quebec negotiations will receive that treatment. As of August 30, 2000, the balance in the ice storm arbitration account was $4.8 million, and the balance in the Schedule A,B,C account was $.8 million. Assuming a 12.8% before tax rate of return over a 15 year period the ratepayers would save approximately $4.3 million on a nominal basis for the ice storm arbitration and, with a fifteen year life of the Schedule A B C account, about another $.7. Discounting at 10 percent reduces that number to about half which is real savings to the ratepayers.

Q. Would you please explain the Department's recommendation regarding certain amortization periods?

A. Yes, as a housekeeping matter I am recommending Public Service Board approval of a 7 year amortization period for the 1998 ice storm, the storm damage accrual (12/31/97 balance of $811,458), and the tree trimming accrual (12/31/97 balance of $1,468,356). Although the Company has been using the 7 year period amortization beginning 1/1/99 concurrent with the first temporary rate order, I believe the Board should have a finding to keep the Company's books consistent with the rate treatment. The second recommendation would be to also amortize over a period of 7 years the remaining state regulatory expense after the $3.2 million write-off required by the MOU. Although this period is in excess of that traditionally used, the unique nature of this case, I believe, requires this special treatment. The beginning of the amortization period should be January 1, 2001 and the unamortized balance will be afforded rate base treatment at the time the Company receives a new rate order following its next rate case projected to be on or after January 1, 2003. GMP will not accrue carrying costs on the unamortized balance during 2001 and 2002. This again is a result of settlement, but the ratepayers are receiving some value for the foregone carrying costs during the stay out period.

Q. Would you please explain the Department's recommendation regarding the elimination of the Winter/ Summer rates?

A. Yes, since the change in the NEPOOL rules, the economic assignment of power costs to periods where those cost were incurred rather than paid is no longer necessary. The Pool changes require the utilities to buy power and energy for each month rather than insure enough capacity to cover the annual peak. This dramatically changes the way power is purchased and results in power expenses being assigned to the period they were incurred and billed rather than the economic assignment. This is very significant change and, in keeping with cost base rate making, results in the need to eliminate the Winter/ Summer differential. This elimination not only will follow the current cost structure of power purchases in New England but will provide ratepayers the correct price signal. I reviewed the effect on different customer usage patterns and different customer classes as a result of the proposed deseasonalization and believe the change will have very little impact on customers' annual bills. Given that customer effect it appears that the need for a phase in of the rate leveling is not required in the case of GMP.

Q. Would you please explain the Department's recommendation concerning the timing of the rate design change?

A. Yes, although revenue neutral rate design changes are preferred, the agreement to freeze GMP's rates for 2001 and 2002 require some infusion of earnings to ensure the necessary earnings to allow access to the capital market. A review of GMP's forecast showed the possible need to shore up earnings for the two year period. As part of the process the Department agreed that the excess revenue generated by eliminating the differential coming out of the Winter period would be used to cover the possible contingencies. Of course, should the earnings not be needed the proposed settlement requires that the remaining funds be used to pay down amortization of regulatory assets which would benefit ratepayers. An additional benefit of this proposal is that the Company can use the dollars in lieu of borrowing from its bank revolvers which results in an interest savings.

Q. Does this conclude your testimony?

A. Yes.